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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Slow Growth In Europe . . .

While the economic and financial condition of the developing countries will be a major item on the agenda at this week's International Monetary Fund/World Bank meetings in Washington, the discussions will be less than complete if the related problem of slow economic growth in Europe is not explored as well. For unless business activity in the principal European countries perks up, both commodity prices and the demand for developing country exports are likely to remain soft.

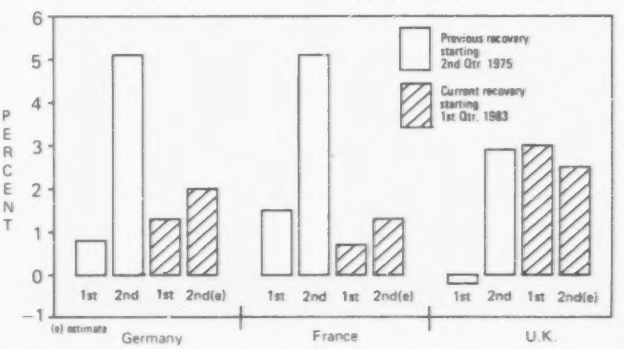
It is fairly evident that the European economies are growing much more sluggishly at this stage of today's global business upswing than in the past. Germany's real GNP, for example, is expected to grow by only about two percent this year after an anemic 1.3 percent gain in 1983 (see chart). By contrast, Germany's growth rates following the deep 1974-75 recession stood at 5.1 percent in the second year of recovery, after a 0.8 percent increase in the first.

So, too, the economic recoveries in France, the U.K. and Italy—Europe's other economic locomotives—appear modest as well. After a less than one percent gain in 1983, French GNP should climb by less than 1.5 percent this year, with no additional vigor foreseen for 1985. In the United Kingdom, after more than a decade of either low real growth or recession, the economic upturn is somewhat stronger, with GNP set to rise around 2½ percent this year after three percent last year. But while these numbers stand up well compared with the U.K.'s anemic growth rates following the mid-70s recession, they are neither sufficiently high to spur the world economy nor even reduce the U.K.'s unemployment rate all that much. As for Italy, real output may rise by slightly more than two percent this year after a one percent decline in 1983. For Europe as a whole, real economic growth will probably amount to little more than two percent both this year and next, after a 1.3 percent gain in 1983—much lower than the 4.6 percent and 2.4 percent increases in the corresponding periods of recovery from the mid-70s recession.

. . . Reflects Consumer Caution . . .

Lackluster final demand in Europe reflecting high unemployment, lofty interest rates and low capital spending accounts for much of the sluggish GDP growth in the region. Retail sales statistics in the various major European countries, for example, indicate that consumers in these countries are reluctant to open up their pocketbooks, perhaps reflecting uncertainty about the future. After almost no increase in the first quarter of this year, retail sales in Germany declined at a 2.7 percent annual rate in the second quarter (in part reflecting the additional negative impact of the metalworkers strike on consumer demand). In France, the consumer mood has been volatile, with retail sales up 13 percent in the first quarter, but down 12.5 percent in the second. In the U.K., after a 0.5 percent gain in the first quarter, retail sales rose 4.9 percent in the second.

REAL GROWTH IN SELECTED EUROPEAN COUNTRIES
CURRENT RECOVERY VS. PREVIOUS RECOVERY
(% CHANGE DURING FIRST AND SECOND YEARS OF RECOVERY)



Only in Italy do consumers seem exuberant. Not only nominal but also inflation-adjusted retail sales rose at double-digit annual rates in the first half of this year. But when retail purchases and other components of private consumption expenditures are lumped together and adjusted for inflation, consumption in Western Europe is expected this year to grow at just about a three percent annual rate, much lower than the six percent rise anticipated for the U.S.

Sluggish consumption in Europe has also dampened capital investment. Real private and public spending on plant and equipment is expected to rise this year by four to five percent in Germany and in the U.K., and by around one-half to two percent in

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Italy and France. This is far below the 13.3 percent rise projected for the U.S. this year. Likewise, in Europe little encouragement is expected from inventory spending. As a result, many of the European countries are looking for stronger exports to help their economies. Their hopes will probably be disappointed, however, despite the strength of the dollar against the European currencies, if internal demand within Europe does not perk up. This is because a good-sized chunk of the external trade of individual European countries is with other countries in Europe. For instance, Germany sells around 70 percent of its exports to European countries, while for France and the U.K., the figures are 60 percent and 55 percent respectively.

. . . And Policy Restraints

Beyond the statistics, it has been suggested that the slow growth of domestic demand in Europe stems from Washington's large budget deficits and their impact on interest rates—not just in the U.S., but worldwide. Relevant as this point may be, a more fundamental reason for lackluster demand in Europe is the pronounced shift in these countries in the past few years towards both fiscal and monetary restraint—in sharp contrast with fiscal expansion and a more accommodative monetary stance in the U.S.

The OECD estimates that the ratio of the public sector budget deficit to gross private savings, which

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/19/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't and Agencies Owned Outright & RPs	162.329	+ .649	+ 4.249
Loans to Depository Inst.	7.323	– .180	+ 5.226
Float	.813	+ .109	– .153
Total Reserve Bank Credit	178.956	+ .659	+ 9.851
Treasury Deposits with Federal Reserve Banks	5.602	+ 1.669	– 1.573
Currency in Circulation	176.590	– .922	+13.289
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.244	+ .577	+ 8.189
	9/12/84		
Member Bank Reserves:			
Total Reserves Held	36.995	+ .736	+ 2.790
Excess (Deficiency)	.666	+ .012	+ .262
Net Free Reserves	.282	+ .240	+ .342
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (9/10/84)	552.7	+ 2.2‡	+ 5.7‡
M2 (August '84)	2,289.6	+ 5.5	+ 6.0
M3 (August '84)	2,867.9	+ 7.4	+ 9.0
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 9/21/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.80%	10.00%	10.15%
* Federal Agencies	10.76	11.10	11.67
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.20	11.57
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	11.15	11.20	11.40

‡Finance Company Paper—Prime

5- 14 days	10.60%
15- 29 days	10.70
30- 59 days	10.78
60- 89 days	10.75
90-179 days	10.65
180-239 days	10.35
240-270 days	10.55

‡* Bankers' Acceptances

Oct.	10.95%
Nov.	10.95
Dec.	10.90
Jan.	10.90
Feb.	10.85
Mar.	10.70

‡Industrial Paper—Prime

30- 89 days	10.81%
90-120 days	10.65

†Federal Funds Effective Rate 10.90%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645r	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639r	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1r	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84n	6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84	– 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons) †	Aug '84	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force †	Aug '84	7.5%	7.5%	9.5%
Personal Income*	Aug '84n	$ 3,043	$ 3,027r	$ 2,760
Leading Indicators Composite Index (1967=100)†	Jul '84	165.3	166.6	158.2
Industrial Production Index (1967=100) †	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	–$ 14.06	–$ 8.91	–$ 6.37
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84n	1,537	1,763r	1,873
New Construction Expenditures*	Jul '84	$ 311.4	$ 309.3	$ 272.3
Total Business Inventories †	Jul '84n	$ 551.3	$ 546.8r	$ 501.4
Total Business Sales †	Jul '84n	$ 411.0	$ 414.1r	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

is probably one of the best measures of the stimulative thrust of fiscal policy, will fall in the U.S. to 18 percent in 1984, from 23 percent in 1983. But this will still be much higher than the 4.3 percent average in the years between the two recent global recessions of 1973-75 and 1981-82. By contrast, in Germany this ratio will probably drop to around 6.5 percent in 1984 from 12.9 percent in 1983 and an average of 15.1 percent in the 1976-81 period. Correspondingly, for the U.K., this ratio is expected to decline to 17.3 percent in 1984 from 21.7 percent in 1983 after averaging 24 percent in the years immediately following the mid-70's recession. Only France and Italy are following the U.S. budget example. They are experiencing a lesser growth impact from it than in the U.S., however, because of the greater dependence of these two countries on exports to other European countries for their internal growth.

Participants at the IMF/World Bank meetings may indeed decide that in the interest of a more robust world economy, European countries should reconsider their stringent fiscal policies in order to spark consumption and investment. By stimulating world trade and growth, such a policy shift could well be an important step toward alleviating the liquidity problems of the developing countries. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/5/84)	156,580	– 1,440	+ 8,613
New York City (9/12/84)	35,106	+ 86	+ 2,689
Commercial Paper (9/12/84)	225,103	+ 3,743	+49,772

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (9/5/84)	244,052	+ 1,916	+28,011
New York City (9/12/84)	65,042	+ 337	+ 7,251

	Total Loans and Leases Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/84)	622,840	+ 7,124	+92,104
New York City (9/12/84)	141,524	+ 282	+23,513

Financial Markets

	Friday 9/21/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.67%	– .05	+ 1.55
180-Day Bills†	11.01	– .09	+ 1.61
Longest Bills†	11.33	– .07	+ 1.61
Recent Issues:			
11⅞s 9/30/86 (When Issued)	11.98	NA	
13⅝s 6/30/88	12.27	+ .01	
12⅝s 8/15/94	12.32	+ .05	
12½s 8/15/14	12.12	+ .03	
Municipals:			
Bond Buyer–20 Bond Index* (9/20/84)	9.95%	– .15	+ .53
Blue List Total ($ Million)	$1,563	+$ 30	+ $ 454
30-Day Visible Supply ($ Million)	$3,714	–$1,095	+ $1,422
Total	$5,277	–$1,065	+ $1,876
Corporates:			
Moody's Aa Composite (9/20/84)	13.13%	– .15	+ .58
30-Day Visible Supply ($ Million)	$1,295	+$ 110	+ $ 798
Stocks:			
Dow-Jones Averages:			
Industrials	1,201.74	– 35.78	– 53.85
Transportation	518.69	– 7.83	– 65.73
Utilities	135.31	+ 2.51	+ 1.88
65 Stocks	471.22	– 8.93	– 28.18
Standard and Poor's 500 Stocks	165.67	– 3.11	– 3.84
N.Y.S.E. Composite Index	95.67	– 1.38	– 2.40
N.Y.S.E. Avg. Daily Vol. for Week (000's)	106,124	+ 5,356	+ 11,990

* 46% Taxable equivalent 18.43%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/21/84	Week Ago
Overnight	10.63%	11.31%
1 month	11.19	11.50
3 month	11.38	11.63
6 month	11.50	11.88
1 year	11.75	12.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.40%
Long Term (7 to 15 yrs.)	12.45	12.40

FOREIGN EXCHANGE SPOT RATES New York Opening (9/21/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01568	63.78
Canada	.7569	1.3211
Denmark	.08739	11.4431
France	.1030	9.7100
Germany	.3161	3.1640
Italy	.0005133	1948.00
Japan	.004040	247.50
Mexico	.005128	195.00
Netherlands	.2803	3.5680
Switzerland	.3891	2.5700
U.K.	1.2120	.8251

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